Joint Reply Comments of the Green Power Institute and the California Biomass Energy Alliance in Response to: *Committee Workshop on Accelerated Renewable Energy Development*

CEC Docket No. 03-IEP-01 and 03-RPS-1078

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Introduction

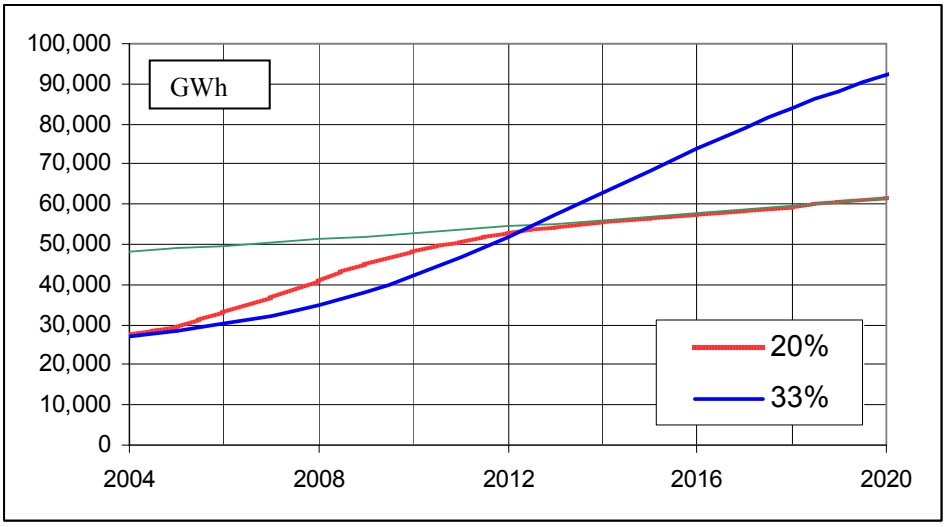
The Green Power Institute and the California Biomass Energy Alliance submit these joint Reply Comments in Docket number 03-IEP-01 and 03-RPS-1078, in connection with the Workshop on Accelerated Renewable Energy Development. We offer comments on the topics of Accelerated RPS Goals Beyond 2010, the RPS as it Applies to Publicly Owned Electric Utilities, and Recalibration of Specific Utility Goals and Tradable Renewable Energy Certificates. The joint parties support the goals of accelerated renewables development in California, and the development of efficient market mechanisms to facilitate the least-cost development of the state's renewables. These are complex issues, and it is important to plan and regulate effectively.

Accelerated RPS Goals Beyond 2010

SB 1078, enacted in 2002, set an RPS mandated minimum level of 20 percent renewables in California's electric supply mix, and a target date of 2017 to achieve it. Since that

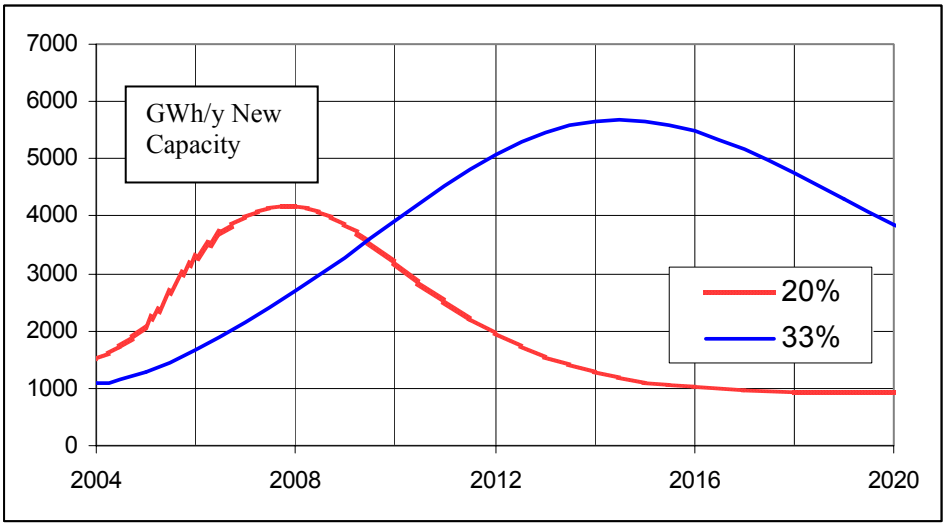
time a broad policy consensus has emerged in the state to accelerate the target date to 2010, which is only six years from now. In order to rationalize this accelerated schedule, it is highly desirable to couple it with an enhanced longer-term renewables penetration level. Failure to do so will lead to a quick boom and bust cycle in the state's renewable energy industry, rather than engendering a stable, long-term environmental industry for the state.

The chart below shows two alternative development scenarios for renewables in California, based on a logistic ("S"shaped) market penetration model. The red line shows renewables production within the context of a 20 percent standard targeted for 2010 achievement, and maintained at that level thereafter. The blue line shows renewables production within the context of a 20 percent standard targeted for 2010 achievement, backed up by a 33 percent standard targeted for achievement in 2020. The faint green line is drawn at twenty percent of statewide retail electricity sales. As the chart shows, following up the short-term target (20% in 2010) with a higher long-term target (33% in 2020) will have the effect of promoting a more orderly development of the state's renewables industry over the next several years, which will promote greater competition in early RPS solicitations, and allow for greater technological development during the industry's growth, while ultimately ending up with far more renewables for California.



Based on the two renewables development scenarios presented above, the chart below shows the amount of new capacity placed into service each year corresponding to each scenario. The chart demonstrates that including an accelerated goal beyond 2010 gives the state a much better chance of building a stable renewable energy industry for the long term, rather than experiencing the same kind of development boom and bust that occurred during the late 1980s, which was followed by more than a decade during which there was

almost no new renewables development. The data do not include replacements of retiring renewables, which should add new development activity to the blue curve in the out years, helping to dampen the decline shown in the chart during this period.



SB 1038 sets aside approximately $70 million per year in PGC funds to support the development of new renewable generators in California. These funds are earmarked to cover the above market cost of renewables, where above-market cost is defined as cost above the market price referent as set by the CPUC. California has seen only a very limited amount of new renewables development during the recent past, and the need for SEP funds has not yet been tested. There is reason to be concerned that the amount of SEP funds could be the limiting factor in determining how fast renewable energy production grows in California, regardless of whether the goal is to achieve 20 percent renewables by 2017 or 2010. Accelerating the goal without augmenting the funding to support that acceleration may have little real effect on the marketplace.

RPS as it Applies to Publicly Owned Electric Utilities

California's three major IOUs report total renewable energy procurement in 2003 of 21,253 GWh/yr, out of a total California renewable energy production in 2003 of approximately 26,000 GWh/yr. While the total procurement reported by the IOUs may include a small amount of renewables imported from out of state, it is clear that the approximately 35 percent of the state's load that currently is served by other than the three IOUs is purchasing only about 20 percent of the state's renewable energy production. Most of this load is served by publicly-owned utilities (approximately 25 percent of the state's load), and the publicly-owned utilities are clearly behind the IOUs in terms of reaching the twenty percent statewide goal of the RPS program. The clear

intent of the law is to have all electricity suppliers in California achieve twenty percent eligible renewables in their supply mix, including the publicly-owned utilities. The publicly-owned utilities should adhere to the same definitions of eligible renewables as are applied to the investor owned utilities. Failure to do so will inevitably lead to suspicions that they are attempting to avoid compliance.

Approximately ten percent of the state's retail electricity market is served by suppliers that are neither IOUs nor POUs. Based on the Governor's recent energy policy pronouncements, this segment of the market, which includes ESPs and Community Choice Aggregators, might very well grow in the future. As a group, the non-utility suppliers are far behind both the IOUs and the POUs. They, too, need to come into conformance with the state's RPS program. The non-utility suppliers are subject to CPUC regulatory jurisdiction, and new proceedings recently opened at that Commission will address compliance issues for these providers.

Recalibration of Specific Utility Goals and Tradable Renewable Energy Certificates

Renewable resources are distributed unequally throughout California. As a result, some utility districts are better endowed with renewable potential than others. It is in everyone's best interest to have the best renewable generating sources be mobilized within the state, without regard to jurisdictional issues. A number of options are available to facilitate this process. With the current rules in place governing RPS compliance for the IOUs, utilities may purchase renewables from outside of their territories and bring it in, if doing so is more cost effective than purchasing from indigenous renewables. An alternative under serious consideration in California is to allow for the separation of renewable energy certificates (RECs) from their underlying energy, and allow for REC trading separate from energy transfers. Another alternative is to set differential renewables goals for the various utilities based on their natural endowments of renewable resources.

A fair amount of consideration was given during the May 4th Workshop to the concept of basing renewables requirements on the natural resource base of a utility's service territory. For example, a utility might be mandated to achieve a specified percentage of its estimated renewable endowment, rather than a specified percentage of its sales. In the opinion of the Joint Parties, this would be a serious mistake. Determining official estimates of renewables potential could lead to endless work by consultants and analysts, but it would never result in consensus. Measuring compliance as a function of metered and publicly reported energy sales provides a simple and straightforward system, and also a reasonable measure of equity, as all customers are equally burdened. Inter-utility equity requires utilities to be able to compete for out-of-territory renewables, with transfer and transaction costs kept to a reasonable level.

Assuming that differential utility quotas or standards based on percentages of estimated endowments are not used, that leaves two basic options for facilitating inter-utility

transfers of renewables: REC trading, or remote purchases and transfers. The compliance rules in SB 1078 are written around a compliance standard that is based on purchases of renewable energy, not on the acquisition of RECs that may be separated from their energy. The CPUC's June 2003 Decision implementing the RPS program, D.03-06-071, approves only compliance based on renewable energy acquisition (bundled RECs) for the present time, but anticipates that trading markets based on separable RECs may be considered sometime in the future. That time may be sooner rather than later, as the legislature is currently considering legislation that would create a trading market for separable RECs.

The choice of whether compliance is based on separable or bundled RECs may not be of great concern to the large public and investor-owned utilities in California. Either way, they will be able to enter into the kinds of long-term PPAs that renewables developers need to finance new projects. However small providers, like local munis, ESPs, irrigation districts, and community aggregators, may not be capable of providing the backing needed to enter into long-term contracts. For this segment of the market, separable REC trading may offer the best opportunity for providers to efficiently achieve RPS compliance.

The greatest danger in allowing the separation of RECs from their underlying energy is that it might lead to gaming, double counting, or other market manipulation. Attachment A to the May 4th Workshop Notice lists a series of issues that will have to be addressed in order to develop an effective REC trading system. These issues are much too grand to be addressed effectively in the context of these Reply Comments. It is the hope of the Joint Parties that all of the issues surrounding REC trading will be given serious and thoughtful consideration, and a full record developed, before any decisions are made.